

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

REVIEW REPORT
OF
INDIANA RURAL DEVELOPMENT COUNCIL
STATE OF INDIANA
April 1, 2002 to March 31, 2005



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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Wendy Dant Chesser Don Koverman Sarah Yeager (Interrim) Phil Anderson	01-08-01 to 01-06-03 06-02-03 to 04-01-05 04-02-05 to 06-05-05 06-06-05 to 01-11-09
Chairman	William Graham	07-01-01 to 06-30-06



STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA RURAL DEVELOPMENT COUNCIL

We have reviewed the receipts, disbursements, and assets of the Indiana Rural Development Council for the period of April 1, 2002, to March 31, 2005. The Indiana Rural Development Council's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Rural Development Council are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

August 24, 2005

INDIANA RURAL DEVELOPMENT COUNCIL
REVIEW COMMENTS
March 31, 2005

OUTSIDE CORPORATION

The Indiana Rural Development Council (IRDC) was established in 1993 through a memorandum of understanding between the State of Indiana and the United States Department of Agriculture. In 2000, the IRDC established a separate entity named Indiana Rural Development Council, Inc., (IRDC, Inc.) a 501(c) (3) not-for-profit Corporation. The entities shared the same state office address, state salaried staff, and the same underlying council membership. Until February 2005, the executive committee members of the IRDC were the Board of Directors of the IRDC, Inc. The Board of Directors of IRDC, Inc., was expanded in March 2005 from five to seven members. Of these, three served also as staff or as the executive committee members of IRDC. The stated purposes of the IRDC, Inc., and the IRDC are substantially the same. According to the board minutes of the IRDC, the IRDC, Inc., is to serve as a fundraising arm to support IRDC activities. As part of its operation, IRDC Inc., opened bank accounts that were under its control. As stated in our prior report (B19349), we found no statutory authority for IRDC to establish a 501(c) (3) not-for-profit corporation, nor did we find statutory authority for the deposit of public funds with a private bank account without the authorization from the Treasurer of State.

During the current review period we found that on December 30, 2004, the IRDC, Inc., issued a \$90,957.57 payment to the State of Indiana which was deposited into the state fund/center maintained for the IRDC. On March 31, 2005, we found remaining balances of \$6,595.44 in the IRDC Inc., checking account and \$51.47 in the IRDC Inc., savings account.

It is our audit position that the public funds on deposit with the IRDC, Inc., in these accounts be transferred to an approved fund center with the IRDC.

We also found that IRDC, Inc., held another checking account. On March 31, 2005, this account had a balance of \$155,678.62 which was the balance of grant advances received for the IRDC, Inc., project entitled Indiana Cooperative Development Center. On May 4, 2005, the IRDC, Inc., project was incorporated as the Indiana Cooperative Development Center, Inc. (ICDC, Inc.). The incorporators were the Director of the Center project, and the Chairman of the Executive Committee of the Center project as appointed by the IRDC, Inc., Board of Directors. The offices for the ICDC, Inc., are located in the Department of Agriculture. On May 5, 2005, the IRDC, Inc., approved issuing a letter giving approval for ICDC, Inc., to become an independent not-for-profit. At the time of our review in August 2005, the funds remained administered by the IRDC, Inc., and contracts had not been renegotiated with the grantors or contracted staff of the center project. We were told financial changes were awaiting the formal incorporation status as a not-for-profit by the Internal Revenue Service.

We recommended to the officials of the IRDC that they request the legal counsel from the Office of the Lieutenant Governor to review the matters of establishing the ICDC, Inc., to ensure it was appropriately established as an independent entity from the State. If it is determined that the entity is appropriate the conclusions of legal counsel should then be reviewed by the State Ethics Commission. Legal counsel should also review the planned transfer or termination of agreements made on its behalf with the IRDC, Inc., and assure state grant contract provisions specifically account for continued provision of any office space or staff to the independent entity.

INDIANA RURAL DEVELOPMENT COUNCIL
REVIEW COMMENTS
March 31, 2005
(Continued)

We instructed the officials of the IRDC to plan a timely dissolution of the IRDC, Inc., and that all transactions be accounted for in the State of Indiana accounting system. The balances retained in bank accounts, other than for the Center project, should be returned to the state accounts maintained for the IRDC. Funds for the ICDC should be transferred in accordance with instruction from legal counsel.

IC 5-13-6-1(b) states: "All public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state . . ."

ACCOUNTING RECORDS FOR IRDC, INC.

We reviewed the accounting records maintained for the IRDC, Inc., and found the following conditions:

*A spreadsheet ledger had not been posted since May 2003. It was designed to provide detail as to the source of receipts and classification by project as to receipts and disbursements.

*Bank deposit records and receipts were not retained for audit.

*The checking account register was largely unposted and unreconciled during the review period. However, it has subsequently been reconciled.

*Disbursements totaling \$15,696 did not have supporting invoices or orders retained for audit. Of this, \$500 appears to have been a duplicate payment issued.

*Checks issued from September 2003 through January 2004 were signed only by the Director although the bylaws require two signatures on disbursements.

*Deposits made for council memberships and registrations in 2002 and 2003 were lower than expected, given the total number of members reported to the Board of Directors.

*The IRDC, Inc., adopted the federal mileage reimbursement rate, which exceeds that of the state rate. However, mileage claims were insignificant overall.

*Eight IRDC Governing Board members and two Directors of IRDC, Inc., were not listed as current members of the council. The corporation bylaws require Directors to be council members.

*The basis for the IRDC is its underlying membership. In 2004, an outside entity was responsible for collecting annual meeting registration fees. These fees were also considered by IRDC as the membership dues. The policy to not directly collect membership fees was not approved by the IRDC or IRDC, Inc. The membership list was comprised of only those who attended the conference. The list may be incomplete as there may be others who paid dues directly. Also, prior members who did not attend the annual meeting were not contacted for membership.

INDIANA RURAL DEVELOPMENT COUNCIL
REVIEW COMMENTS
March 31, 2005
(Continued)

Due to the above conditions, we cannot verify the proper purpose or amount paid for the undocumented disbursements, or that all membership revenues were properly collected and deposited.

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance.

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed.

Documents should be retained in accordance with a retention schedule approved by the Oversight Commission on Public Records. Also, documents must be filed in such a manner as to be readily retrievable or otherwise reasonably attainable, upon request, during an audit.

We recommended that the outside bank accounts be closed and that the State Accounting System be used to account for transactions. The vendor overpaid for the duplicate payment should be contacted for a refund. The membership list needs to be verified for completeness. This should include agreeing membership records to receipt records. Differences should be investigated. In the future, controls to ensure that only individuals who have paid their fees be considered members need to be implemented.

INDIANA RURAL DEVELOPMENT COUNCIL
EXIT CONFERENCE

The contents of this report were discussed on September 7, 2005, with Phil Anderson, Executive Director; Joe Pearson, Director of the Indiana Office of Rural Affairs; and Chad Frahm, Attorney for the Office of Lieutenant Governor. The official response has been made a part of this report and may be found on pages 8 and 9.

The contents of this report were sent on September 12, 2005, to Ms. Wendy Dant Chesser, prior Executive Director.



**OFFICE OF THE LT. GOVERNOR
STATE HOUSE**

INDIANAPOLIS, INDIANA 46204-2797

**REBECCA S. SKILLMAN
LT. GOVERNOR**

September 28, 2005

Ms. Mary E. Rankin
Indiana State Board of Accounts
302 W. Washington St., Room E418
Indianapolis, IN 46204-2738

RE: 2005 State Rural Development Council Audit Official Response

Dear Ms. Rankin:

On behalf of Lieutenant Governor Becky Skillman, I would like to thank you and your staff for your assistance and for the professional and thorough audit recently performed. I have addressed below each of the comments you made in regards to the Indiana Rural Development Council (IRDC), which the Office of Rural Affairs under the Office of the Lieutenant Governor provides administrative and staff support for in accordance with Indiana Code 4-4-9.7-6.

Outside Corporation

As your report states, we understand that in 2000 IRDC established a separate not-for-profit 501(c)(3) entity named the Indiana Rural Development Council, Inc. (IRDC, Inc.) and that the two entities were substantially the same. As stated in your prior report (B19349) and this report, there is no statutory authority for IRDC to establish a 501(c)(3) not-for-profit corporation, nor statutory authority for the deposit of public funds with a private bank account without authorization from the Treasurer of State.

All public funds on deposit with IRDC, Inc. are in the process of being transferred to an approved fund center with IRDC. Also, the funds received for the project entitled Indiana Cooperative Development Center (ICDC), are in the process of being transferred to an approved fund center with IRDC and the ICDC project will be administered by the IRDC not the IRDC, Inc. IRDC, Inc. will either be dissolved or the appropriate statutory authority will be sought and granted before any activity occurs through IRDC, Inc.

I am in the process of reviewing the matters of establishing the ICDC to ensure it was appropriately established as an independent entity from the State, as was recommended in your report.

Accounting Records For IRDC, Inc.

As you recommended in the report, all outside bank accounts relating to IRDC, Inc. are in the process of being closed and the money transferred to a state approved fund center for IRDC, as was stated above.

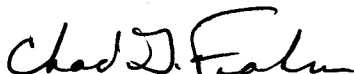
Regarding the duplicate payment referenced in your report, checks #1062 and #1071 were both for \$500 and both noted that they were for 2004 Partners for Rural America (PRA) membership dues. Bill Morgan, Treasurer for PRA was contacted and check #1062 was for the 2003 PRA membership, not the 2004 PRA membership. This was a recording error made by the former IRDC Director Don Koverman.

The IRDC membership list will be verified for completeness, including agreeing membership records to receipt records. If IRDC continues to have members, we will properly reflect in the membership records which have paid membership dues and which have not to ensure membership records agree with receipt records.

IRDC has a retention schedule approved by the Oversight Commission on Public Records for all documents relating to IRDC matters. IRDC documents will continue to be filed in a manner to be readily retrievable or otherwise reasonably attainable, upon request, during an audit.

Again, thank you for your thorough audit that provided helpful information to our staff. Please do not hesitate to contact me at (317) 232-5679 should you have any questions or concerns.

Best regards,

A handwritten signature in black ink, appearing to read "Chad G. Frahm". The signature is written in a cursive, flowing style.

Chad G. Frahm
General Counsel